MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2018/2019

BAC3634 – CORPORATE ACCOUNTING 1

(All sections / Groups)

5 MARCH 2019
9.00 a.m – 12.00 p.m
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of **NINE (9)** pages excluding the cover page with **FOUR (4)** Questions only.

2. Attempt **ALL** questions. The distribution of the marks is shown at the end of each question.

3. Please write all your answers in the answer booklet provided.

QUESTION 1 (25 MARKS)

Part A

On 1 January 2015 East Coast Bhd purchased 80% of 2,000,000 ordinary shares issued by West Coast Bhd at a cost of RM1,900,000 when the reserves of West Coast Bhd showed a credit balance of RM400,000. The fair value of the net assets of West Coast Bhd was equal to their carrying amount.

On 1 January 2016 East Coast Bhd acquired 640,000 ordinary shares out of 800,000 ordinary shares in South Coast Bhd for RM800,000 and on that date the South Coast Bhd had a credit balance in its retained earnings of RM200,000.

The Statements of Financial Position of East Coast Bhd, West Coast Bhd and South Coast Bhd as at 31st December 2017 are as follows:

	East Coast Bhd	West Coast Bhd	South Coast Bhd
	RM	RM	RM
Non-current assets			
Property, plant and equipment	750,000	1,600,000	1,250,000
Investments in West Coast Bhd	1,900,000		
Investment in South Coast Bhd	800,000		
Current assets			
Inventory	240,000	940,000	280,000
Accounts receivables	660,000	890,000	62,000
Cash and bank balances	40,000	20,000	15,000
Total	**4,390,000**	**3,450,000**	**1,607,000**
Ordinary share capital of RM1 each	3,500,000	2,000,000	800,000
Retained earnings	850,000	900,000	600,000
Accounts payable	40,000	550,000	207,000
Total	**4,390,000**	**3,450,000**	**1,607,000**

Additional information:-

a) On 30 June 2017 East Coast Bhd sold 320,000 ordinary shares in South Coast Bhd for RM 700,000. The proceeds amount of RM700,000 has not been received by East Coast Bhd and not recorded by East Coast Bhd. The net profit for the current year 2017 earned by South Coast Bhd was RM200,000. Assume the profit for the year 2017 accrued evenly throughout the year. East Coast Bhd lost control in South Coast Bhd but able to exercise significant influence.

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b) The fair value of one ordinary share of South Coast Bhd as on 30 June 2017 was RM2.00.
c) Goodwill on consolidation remained unimpaired.

Required:

i) Calculate the goodwill on acquisition of subsidiaries (5 marks)
ii) Calculate the gain or loss on disposal of shares in South Coast Bhd. (6 marks)
iii) Prepare the Consolidated Statement of Financial Position of East Coast Bhd group as at 31 December 2017. (9 marks)

Part B

Non-controlling interest is recognised on measurement date under two methods. Briefly explain the two methods.

(5 marks)
(Total: 25 marks)

QUESTION 2 (25 MARKS)

Part A

Given below are the Statements of Profit or Loss of Am Bhd and Lex for the year ended 31 December 2018.

	Am Bhd (RM)	Lex Bhd (RM)
Turnover	3,400,000	2,200,000
Cost of sales	(1,200,000)	(800,000)
Gross profit	2,200,000	1,400,000
Operating expenses	(600,000)	(360,000)
Operating profit before taxation	1,600,000	1,040,000
Dividends from quoted investments	80,000	60,000
Dividends from Lex Bhd		
Ordinary	96,000	-
Preference	12,600	-
Profit before taxation	1,788,600	1,100,000
Taxation	(584,000)	(440,000)
Profit for the year	1,204,600	660,000

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Additional information:-

a) Retained profit on 1 January 2018 and dividends for year 2018 were as follows:

	Am Bhd (RM)	Lex Bhd (RM)
Retained profit at 1 January 2018	440,000	200,000
Ordinary dividends paid in October 2018	240,000	128,000
Preference dividends paid in July 2018	-	42,000

b) On 1 April 2018, Am Bhd bought 300,000 ordinary shares and 120,000 10.5 percent preference shares of Lex Bhd.
c) The issued share capital of Lex Bhd comprised 400,000 ordinary shares and 400,000 10.5 percent preference shares.
d) Sales of Lex Bhd includes sales to Am Bhd of RM400,000 in the post-acquisition period. Lex Bhd sold goods to Am Bhd at cost plus 25 percent and RM80,000 of the goods purchased from Lex Bhd still remain as closing inventory of Am Bhd.
e) Assume that profits accrue evenly throughout the year.

Required:

In accordance with the requirements of MFRS 10 *Consolidated Financial Statements*, prepare the Consolidated Statement of Profit or Loss of Am Bhd group for the year ended 31 December 2018.

(9 marks)

Part B

Given below are the Statements of Financial Position of Hans Bhd and Solo Bhd as at 31 December 2018.

Statements of Financial Position of Hans Bhd and Solo Bhd as at 31 December 2018

	Hans Bhd (RM)	Solo Bhd (RM)
Assets		
Land and building (cost)	140,000	150,000
Plant and machinery (cost)	30,000	40,000
Goodwill	10,000	5,000
Current assets		
Inventories	45,000	30,000
Trade receivables	30,000	25,000
Bank	35,000	45,000
	290,000	295,000

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Equity		
Ordinary share capital	250,000	100,000
100,000 10% preference shares	-	100,000
Retained profits (loss)	(50,000)	80,000
Liabilities		
Trade payables	90,000	15,000
	290,000	295,000

Additional information:

a) Hans Bhd and Solo Bhd want to amalgamate. A new company named Hans Solo Bhd is formed to acquire all the assets and liabilities of Hans Bhd and Solo Bhd.

b) The consideration transferred is as follows:

	Hans Bhd (RM)	Solo Bhd (RM)
Ordinary shares in Hans Solo Bhd	300,000	265,000
100,000 8% Preference shares		120,000

c) The preference shares issued by Hans Solo Bhd are to be used to discharge the preference shareholders of Solo Bhd.

d) The fair values of the assets will be as follows:

	Hans Bhd (RM)	Solo Bhd (RM)
Land and building	200,000	250,000
Plant and machinery	15,000	20,000
Current assets/liabilities	Carrying amounts	Carrying amounts

e) Both Hans Bhd and Solo Bhd are to be wound up.

Required:

i) Calculate the amount of goodwill on business combination.

(4 marks)

ii) Prepare realisation account and sundry members' account to close the books of Hans Bhd.

(4 marks)

iii) Prepare the Statement of Financial Position of Hans Solo Bhd after amalgamation.

(4 marks)

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Part C

Duo Bhd acquired a subsidiary in the current year and is going to consolidate using the acquisition method as set out in MFRS 3 *Business Combinations*. As the accounts executive of Duo Bhd, you are required to explain the steps involved in the acquisition method to an accounting executive trainee who just joined the company. Briefly explain. (4 marks)

(Total: 25 marks)

QUESTION 3 (25 MARKS)

The following are the financial statements of Falcon Bhd Group companies as at 31 December 2018.

Consolidated Statement of Profit or Loss for the year ending 31 December 2018.

	RM
Revenue	130,000
Cost of sales	115,250
Gross profit	14,750
Share of profit from Associates	200
Gain on disposal of subsidiary	300
Gain on sale of non-current asset	500
Operating expenses	(9,000)
Depreciation	(750)
Profit before tax	6,000
Taxation	(1,200)
Profit after tax	4,800

Profit after tax attributable to:

Group	RM 4,000
Non-controlling interest	RM 800

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Consolidated Statement of Financial Position of Falcon Bhd group as at 31 December 2018

	2018	2017
	RM	RM
Non-current assets	17,500	15,500
Investments	12,000	8,000
Investments in Associate co	8,800	9,000
Current Assets		
Inventories	3,800	1,921
Accounts receivables	2,145	6,550
Bank	15,000	10,000
Total	**59,245**	**50,971**
Ordinary share capital	20,000	18,000
Retained earnings	12,000	9,000
Non-controlling interest	6,400	7,000
Long term loan	15,000	10,000
Current liabilities		
Accounts payable	2,345	4,321
Dividend payable	600	450
Tax payable	2,900	2,200
Total	**59,245**	**50,971**

Additional information:-

a) A non-current asset of book value RM1,000 was sold at a profit of RM500.

b) On September 2018 Falcon Bhd sold all its interest in 80% owned subsidiary XYZ Bhd and received cash of RM2,540. All goodwill on consolidation has been written off

c) The net assets of XYZ Bhd on the date of sale were as follows:

	RM
Non-current assets	2,500
Inventory	250
Bank balance	200
Accounts receivables	50
Trade Payable	(200)
Non-controlling interest	560

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Required:

i) To prepare the group Cash Flow Statement for the year ending 31 December 2018. (19 marks)

ii) From the above Consolidated financial position of Falcon Bhd, find out the current ratio, acid rest ratio and leverage ratio for the year 2018 and 2017 and comment. (6 marks)

(Total 25 marks)

QUESTION 4 (25 MARKS)

Part A

The Statements of Financial Position of three companies showed the following balances as at 31 December 2018.

	Dua Bhd	Tiga Bhd	Lima Bhd
	RM	RM	RM
Non-current assets			
Land	3,803,000	3,510,000	2,100,000
Plant & Machinery	700,000	750,000	
Investments in Tiga Bhd		-	-
Ordinary shares	1,000,000		
6% Preference shares	600,000		
RM400,000 10 percent debentures	400,000		
Investments in Lima Bhd	700,000	-	-
Current assets			
Ordinary dividends receivable from Tiga Bhd	45,000	-	-
Preference dividends receivable from Tiga Bhd	12,000	-	-
Debenture interest receivable from Tiga Bhd	40,000	-	-
Inventories	800,000	400,000	540,000
Trade receivables	500,000	300,000	60,000
Cash at bank	400,000	250,000	300,000
	9,000,000	5,210,000	3,000,000

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Equity and non-current liabilities

Ordinary share capital	5,000,000	1,000,000	1,000,000
6% Preference shares	250,000	1,000,000	-
Retained profits	2,100,000	1,200,000	900,000
	7,350,000	3,200,000	1,900,000
10 percent debentures		1,000,000	
Current liabilities			
Debenture interest payable	-	100,000	-
Preference dividends payable	-	60,000	-
Ordinary dividends payable	250,000	50,000	-
Trade payables	1,400,000	800,000	1,100,000
	9,000,000	5,210,000	3,000,000

Additional information:-

a) Dua Bhd acquired 900,000 of 1,000,000 issued ordinary shares of Tiga Bhd on 1 January 2015. On the same date, Dua Bhd acquired 200,000 of 1,000,000 6 percent non-redeemable preference shares issued by Tiga Bhd and 40% of debentures issued by Tiga Bhd. The retained profits of Tiga Bhd was RM200,000 on 1 January 2015. The non-controlling interest on 1 January 2015 was RM400,000. Goodwill is calculated based on full value method.

b) On 1 January 2015, a plant of Tiga Bhd had a fair value that was RM160,000 more than its carrying amount. The remaining life of this plant on 1 January 2015 was 8 years.

c) Dua Bhd also acquired 400,000 of 1,000,000 issued ordinary shares of Lima Bhd on 1 January 2018. On that date the retained profit of Lima Bhd was RM500,000.

d) As on 31 December 2018, Investments in Associate was assessed as impaired by RM50,000.

e) During the year, Dua Bhd sold inventories to Lima Bhd. Sales are made at cost plus 25 percent. Included in the inventories of Lima Bhd are RM50,000 inventories bought from Dua Bhd.

f) Included in the trade receivables of Dua Bhd were RM100,000 from Tiga Bhd and RM80,000 from Lima Bhd. However, Tiga Bhd has remitted RM45,000 on account of this debt on 31 December 2018, which was only received by Dua Bhd on 1 January 2019.

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Required:

Prepare the Consolidated Statement of Financial Position of Dua Group as at 31 December 2018 in accordance with the requirements of MFRS 10 *Consolidated Financial Statements.*

(20 marks)

Part B

In April and May 2018, the International Accounting Standards Board (IASB) discussed current value approaches for business combinations under common control (BCUCC) that affect non-controlling interest (NCI) in the receiving entity based on the acquisition method set out in IFRS 3 Business Combinations.

Required:

Discuss the observations of the IASB on whether a current value approach should be applied to all transactions that affect NCI or just some transactions that affect NCI.

(5 marks)
(Total: 25 marks)

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